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FOLLOWING REPEAT ROME 20160 SENT ACTION SECSTATE 10 DEC 76

QUOTE LIMITED OFFICIAL USE ROME 20160

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SUBJECT: ECONOMIC SITREP NO. 29, FRIDAY, DECEMBER 10

REF: ROME 20089

1. SUMMARY. PARTIAL BLOCK OF WAGE COST-OF-LIVING ESCALATOR BECOMES LAW. UNION CONFEDERATION (CCU) EXECUTIVE COMMITTEE MEETING TODAY WILL DISCUSS SECRETARIAT'S RECOMMENDATION ON BREAKING LINK BETWEEN COST-OF-LIVING ESCALATOR AND SEVERANCE PAY COMPUTATIONS. ANDREOTTI CITES TO PRESS POSSIBLE SOURCES OF EMERGENCY FINANCING TO DEFEND LIRA IF NECESSARY. EC DECISION ON \$500 BILLION LOAN TO OFFSET REPAYMENT OF UK LOAN DEFERRED TO DECEMBER 20 MEETING. LIRA RATE UNCHANGED AND DOLLAR DEMAND CONTINUES AT LOW LEVEL. END SUMMARY

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2. PARLIAMENT COMPLETES RATIFICATION OF COST-OF-LIVING ESCALATOR FREEZE. CHAMBER OF DEPUTIES APPROVED EVENING OF DECEMBER 9 DECREE LAW AS AMENDED BY SENATE PARTIALLY FREEZING WAGE COST-OF-LIVING ESCALATOR. NO CHANGES WERE MADE TO BILL AS APPROVED BY SENATE. TO RECAPITULATE, PARTIAL FREEZE PROVIDES FOR PAYMENT IN FIVE-YEAR NON-NEGOTIABLE TREASURY BONDS OF 50 PERCENT OF AUTOMATIC WAGE COST-OF-LIVING ESCALATOR INCREASES FOR SALARIED EMPLOYEES AND SOME PROFESSIONS EARNING BETWEEN 6 AND 8 MILLION LIRE ANNUALLY AND 100 PERCENT OF INCREASES FOR THOSE EARNING ABOVE 8 MILLION LIRE (NET OF SOCIAL INSURANCE CONTRIBUTIONS BUT GROSS OF INCOME TAXES). THE FREEZE WILL BE IN EFFECT FOR 19 MONTHS BEGINNING OCTOBER 1, 1976 AND ENDING ON APRIL 30, 1978. (CONSEQUENTLY, A MINOR ADJUSTMENT WILL HAVE TO BE MADE ON PAYMENTS MADE BY INDUSTRY BEGINNING NOVEMBER 1 SINCE COST-OF-LIVING REVIEW PERIOD RANGES FROM THE 15TH OF THE MONTH TO THE 15TH. THUS, THE COST-OF-LIVING INCREASE CALCULATED FOR THE PERIOD OCTOBER 1 TO OCTOBER 15 MUST BE RETROACTIVELY FROZEN.) ALTHOUGH THE CHAMBER OF DEPUTIES MADE NO AMENDMENTS TO BILL RATIFIED BY THE SENATE, CHAMBER PASSED AN "ORDER OF THE DAY" WHICH REQUIRES THE GOVERNMENT TO SEE THAT THE FORCED SAVINGS ARE NOT TAXED UNTIL CONVERTED INTO SALARIES, AND WHICH REQUIRES THE GOVERNMENT TO REVIEW THE LAW AT THE END OF JULY 1977 AND MAKE ADJUSTMENTS IN IT IF THE ECONOMIC SITUATION IS SUCH AS TO REQUIRE THEM. THIS LATTER REQUIREMENT PROVIDES THE MEANS TO RAISE THE CEILINGS ON THE PARTIAL FREEZE IF FISCAL DRAG HAS BEEN EXCESSIVELY EFFECTIVE. THE FORCED SAVINGS, ACCORDING TO PRESS REPORTS, ARE NOW DESTINED TO BE USED TO PROVIDE INCENTIVES FOR PRODUCTIVE INVESTMENT (POSSIBLY FOR SMALL AND MEDIUM SIZED INDUSTRIES).

3. UNION CONFEDERATION AND ADJUSTING THE ESCALATOR. THE BATTLE WAGED IN THE SECRETARIAT OF THE CONFEDERATION OF THE THREE MAJOR UNION CONFEDERATIONS TO INCLUDE FOR DISCUSSION AT THE EXECUTIVE COMMITTEE LEVEL SOME ADJUSTMENT IN THE COST-OF-LIVING ESCALATOR WAS CARRIED BY THE FORCES FOR MODEST CHANGE. THE PHRASING APPARENTLY PROVIDES THAT THE LABOR UNIONS WILL BE WILLING TO DISCUSS BREAKING THE LINK BETWEEN THE WAGE COST-OF-LIVING ESCALATOR AND COMPUTATION OF SEVERANCE PAY ON THE CONDITION THAT THE GOVERNMENT AND POLITICAL PARTIES WILL LIMITED OFFICIAL USE

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GUARANTEE NOT TO "TOUCH" THE ESCALATOR MECHANISM. CONSEQUENTLY, IN ORDER TO MEET WITH THE GOVERNMENT (SCHEDULED FOR DECEMBER 15) AND MEET WITH ECONOMISTS FROM THE "CONSTITUTIONAL ARC" OF POLITICAL PARTIES, THE UNIONS WILL REQUEST A DELAY IN THEIR NEXT SCHEDULED MEETING WITH CONFINDUSTRIA. ALTHOUGH THE ALTERNATIVE CONSIDERATION OF SHIFTING FROM QUARTERLY TO SEMI-ANNUAL ADJUSTMENTS IN WAGES HAS FOR THE MOMENT BEEN PUT ASIDE, IT WAS NOT DONE SO WITHOUT SOME FORCEFUL RESISTANCE FROM A

MINORITY FACTION OF ONE OF UNION CONFEDERATIONS (UIL), WHICH ARGUED THAT ADJUSTING THE SEVERANCE PAY COMPUTATION IS HIGHLY DISCRIMINATORY IN THAT IT AFFECTS ONLY A SMALL PORTION OF THE WORK FORCE AND IT DOES NOT ATTACK INFLATION. THUS, IT STILL TOO EARLY TO WRITE OFF POSSIBLE SEMIANNUAL ADJUSTMENT.

4. ANDREOTTI LISTS SOURCES OF EMERGENCY FINANCING. (SEE SEPTEL DECEMBER 10) IN REMARKS TO PRESS AFTER RETURN FROM US VISIT, ANDREOTTI REPORTEDLY STATED THAT IN REGARDS TO EMERGENCY FINANCING, THE ASSUMPTION IS THAT A CONSORTIUM OF (CENTRAL) BANKS WOULD COORDINATE ACTION IN DEFENSE OF THE LIRA. AN AIDE ENLARGED UPON THE POINT CITING THAT THESE SOURCES WOULD BE SWAPS FROM THE FEDERAL RESERVE AND OTHER CENTRAL BANKS (LINKED TO THE SUCCESSFUL CONCLUSION OF IMF LOAN).

5. EC \$500 MILLION LOAN DECISION DEFERRED. EC MONETARY COMMITTEE TO DEFER UNTIL DECEMBER 20 DECISION ON \$500 MILLION LOAN TO OFFSET REPAYMENT OF UK LOAN WIDELY CARRIED BY PRESS. WE UNDERSTAND IT WAS ALREADY UNDERSTOOD THAT NO DECISION WOULD BE TAKEN BEFORE 20TH IN ANY CASE. PRESS STORIES HAD LITTLE TO SAY ABOUT REASON FOR FURTHER DELAY OTHER THAN STATING THAT EC UNABLE TO AGREE ON THE ECONOMIC POLICY CONDITIONS TO BE REQUIRED OF ITALY.

6. MARKET DEVELOPMENTS. THE USUAL ROUTINE: LIRA/DOLLAR 865.30 ON 10 DECEMBER COMPARED TO 865.325 ON 9 DECEMBER. ITALIAN PRESS REPORTED TODAY THAT G-10 DEPUTY FINANCE MINISTERS WOULD MEET HOSRTLY TO DETERMINE EXPANSION OF IMF RESOURCES IN ORDER TO CLEAR WAY FOR LOANS TO GREAT BRITAIN AND ITALY. BEAUDRY

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